Local Option Income Tax

Fact Sheet

Indiana Department of
Local Government Finance

October 2007

Local Option Income Tax Overview

Counties were given expanded authority to increase existing local option income taxes with the enactment of House Enrolled Act 1478 in 2007. The goal is two-fold: 1) to provide an avenue of relief for property taxpayers by allowing counties another funding source for increased local spending; and 2) to provide an option for alternative sources of revenue to counties.

Under this bill, counties are given more flexibility to fund the costs of local government with local income taxes instead of property taxes. The three new options allowed by legislation include:

- Incremental: Counties may choose to fund local operating budget increases by adopting a County Adjusted Gross Income Tax (CAGIT) rate or an additional County Option Income Tax (COIT) rate instead of increasing property taxes. The rate must be set incrementally for two years and cannot exceed 1%. The local option income tax used for operating funds requires the Department of Local Government Finance to "freeze" property tax levies and fund future levy growth through local option income taxes for operating needs.

- Replacement: Counties may choose to implement a CAGIT rate or COIT rate to fund a dollar-for-dollar in exchange for property tax relief up to 1% in increments of .05% across the board by targeting relief for: (1) property tax replacement credits; (2) a uniform increase in the homestead credit percentage in the county; or (3) local property tax replacement credits at a uniform rate for all qualified residential property.

- Public Safety: Counties may choose to adopt a local income tax for public safety of up to the lesser of .25% or the local option income tax rate imposed for property tax relief provided that the first two options (incremental and replacement) are adopted. (Please note: Marion and Lake counties have exceptions)

Taxpayer Impact

If any, or all, of the income tax options are adopted by a county, property taxpayers in that county may see some property tax relief for tax bills sent in 2008. The impact will vary across the state due to different income tax and property tax rates in each county.

How It Works

Under this bill, the decision would be made by the county council to adopt an additional CAGIT or the county income tax council to adopt an additional COIT.

When initially adopted, the tax rate for operating purposes shall be certified by the Department of Local Government Finance for each of the following two years. After the first two years, the county may elect to increase the rate needed to replace the estimated increase in property tax levies. The rate may not be reduced or rescinded, but may be increased each year to replace the property tax levy growth that would otherwise occur in the following year not exceeding 1%.

Counties may choose to impose an incremental 0.05% CAGIT or COIT tax rate of up to 1% to provide any combination of (1) property tax replacement credits; (2) a uniform increase in the homestead credit percentage in the county; or (3) local property tax replacement credits at a uniform rate for all qualified residential property. A county that increases CAGIT or COIT for incremental funding and dollar-for-dollar increases for tax relief may also impose an additional CAGIT or COIT tax rate of up to 0.25% for public safety.

Counties seeking to impose, increase, decrease, or rescind these local option income taxes must adopt an ordinance **after March 31 and before August 1** of a year. For 2007 the deadline date for adoption has been extended until December 31.

The ordinances take effect October 1 of a year. The county will begin receiving proceeds based on the new rate(s) in the next calendar year.

For 2007 only, the effective date for the LOIT withholding is dependent upon the adoption date. This is outlined in the chart below:

Adoption Date	Effective Date for LOIT withholding
Before October 1, 2007	October 1, 2007
October 1, 2007 – October 15, 2007	November 1, 2007
October 16, 2007 – November 15, 2007	December 1, 2007
After November 15, 2007	January 1, 2008

Frequently Asked Questions

Q: What happens to money generated by the local option income tax?
A: The money would go directly to replace the estimated increase in property tax levies, for tax relief, or for public safety in the year generated.

Q: Do these local option income taxes replace the income taxes currently raised for county adjusted growth income tax (CAGIT), county option income tax (COIT and county economic development income tax (CEDIT)?
A: No, local option income taxes for property tax relief, public safety or operating purposes are in addition to existing local option income taxes allowable by law.

Q: What would this mean to local government budgets?
A: If all counties adopt the full additional local option income tax rates available under this bill, the total additional revenue that may be generated is estimated at $1.88 B in CY 2008, $1.95 B in CY 2009, and $2.16 B in CY 2010. Of these amounts, $1.35 B in CY 2008, $1.53B in CY 2009 and $1.73 B in CY 2010 would go directly to levy replacement and property tax relief in the year generated.

Q: Where does any excess money go?
A: Any income tax proceeds that exceed the levy replacement amount will be deposited into the County Stabilization Fund established under the bill. Money in the stabilization fund could be distributed to the taxing units in the county in a year when the certified local option income tax distributions are less than the calculated levy growth amount for the year.

Q: What has been the response of County Officials?
A: The local income tax options have been discussed by a few counties; however, it is difficult to predict whether any counties will choose to adopt any or all of the optional taxes.

Contact Information

For more information on Local Option Income Taxes, contact your local County Council.

Additional information regarding Local Option Income Taxes can be obtained by contacting the Indiana Department of Local Government Finance at (317) 233-9222 or online at www.in.gov/dlgf.